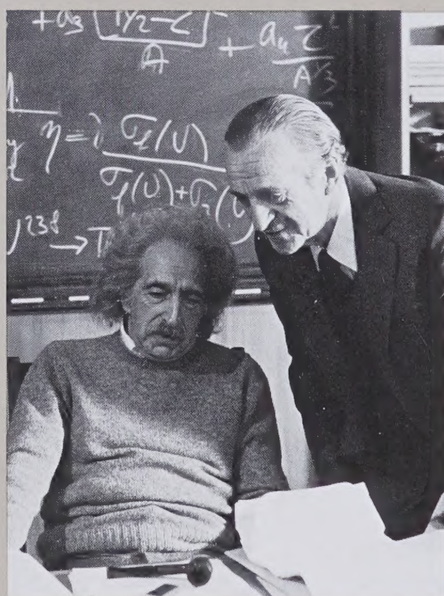
Montreal Trust 89th Annual Report, 1978.



Automated Corporate Transfer System.

Modern technology helps us maintain our traditional service.

Conscious of the role we play as an industry leader in the provision of trust services to corporations, almost a year ago we started planning the detailed introduction of an on-line corporate stock and bond transfer system — known as ACTS — Automated Corporate Transfer System.

ACTS came on stream on November 17, 1978, the exact day we had targeted almost a year earlier, and we are now converting the 2,591 issues of securities where we act in a corporate capacity.

We have invested more than one million dollars for the purchase of this proven, time-tested system and some 41 proprietary modifications which we made to enhance the basic system. This modified automated transfer system, controlled by our expert staff across the country, is the most advanced system in existence in Canada and not only consolidates our leadership position in this field but can assure our position well into the future. We are proud of this system's capabilities and in the text that follows, a few of its more important features are commented on.

As ACTS is an on-line system, complete print-out of statistical reports, lists, dividend cheques or any other product are produced in each of our four on-line centres overnight from equipment in our Vancouver, Calgary, Toronto or Montreal offices. These 4 cities handle some 90% of the transfers we process.

Other benefits derived from ACTS emanate from the system's security, speed, accuracy and capacity. Stock and bond transfers including all record keeping functions and certificate issuance are completed in under 24 hours. ACTS will monitor transfers so that our clients can be immediately advised of the movement of any large block of shares.

ACTS has been designed to eliminate the mailing of multiple reports or statements to any one address as well as eliminate duplicate mailings between common and preferred shareholders. This feature of ACTS ends the possibility of annoying duplications and their attendant costs to the client company. Many of the problems that are often attributed to human error are overcome by the automatic attention to the smallest detail provided by our system. In addition, ACTS sorts mail by postal code or zip code sequence, expediting the delivery of mail.

It is through its capacity that the system allows us to offer the greatest possible flexibility to our clients. We can now produce virtually any type of report such as the issuance of dividend cheques, shareholder lists, and sundry statistical data printed locally at high computer print-out speeds.

Full maintenance and the updating of master files is an on-line function with the result that a stop transfer notice lodged in any one office instantaneously stops the transfer of a reported lost certificate across the system.

Change of address maintenance on a shareholder's account in one issue, automatically changes his address in any other issues where we act as Transfer Agent or Trustee.

Responding accurately and quickly to shareholder enquiries has historically been a major headache for both the corporate secretary and the transfer agent. With ACTS, it is no longer a problem. Shareholder enquiries can be responded to in seconds over the telephone. In addition, ACTS has a special feature which gives us the ability to install an enquiry terminal in a client's office, enabling direct access to any information relating to the company's shareholder or bond register.

So great is the capacity of our Automated Corporate Transfer System, that there is virtually no limit to the amount of historical data we can store, no limit to the number of new accounts we can accept, no limit to the services we can provide our clients.

Highlights

	1978	1977
Revenue	$ 144,881,000	$129,322,000
Net operating income	$ 7,039,000	$ 5,709,000
Per share	$ 2.73	$ 2.22
Net income	$ 7,087,000	$ 5,757,000
Per share	$ 2.75	$ 2.23
Dividends	$ 1.00	$ .86
Total assets	$1,026,718,000	$957,217,000
Shareholders' equity	$ 53,032,000	$ 48,481,000

Contents

Annual Meeting:
Thursday, April 5, 1979
12:00 o'clock noon
Le Château Champlain
Place du Canada
Montreal, Quebec

MONTREAL TRUST
1 Place Ville Marie
Montreal, Quebec H3B 4A8

Member of the Trust Companies
Association of Canada

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire, Montréal Trust.

With these ACTS units, an operator records all details of a transfer and updates all shareholder records in seconds instead of the approximate 1 week required by transfer agents not utilizing an on-line system.

Directors' Report to Shareholders

Paul Britton Paine, Q.C.
Chairman of the Board and President

The Board of Directors is pleased to submit the Company's eighty-ninth Annual Report together with the Consolidated Financial Statements for 1978. The presentation of the financial statements in this report has been rearranged in the format generally used by other trust companies. The statement of income provides greater detail, the balance sheet is set forth in more readable form and a statement of financial change has been added.

The Company continued to progress in its affairs in 1978. Net operating income was $7,039,000 or $2.73 per share and net income $2.75 per share. The comparative figures for 1977 were $2.22 and $2.23 respectively.

Revenue and Expense

Revenue for the year rose by $15,559,000 of which $6,464,000 accrued from additional fee and commission income and $9,095,000 from increased interest and dividends. Real estate commissions accounted for $4,204,000 of the fee and commission increase. The latter was accomplished by increasing the volume output of real estate offices and served to improve the contribution to net operating income from that activity. Profit ratios for services as measured under Anti-Inflation Board regulations had fallen sufficiently to allow some increase in fee scales in the latter part of the year. Higher interest and dividends earned arose from increased assets and rising interest rates as the year progressed. The increase in dividends reflects additional investment in preferred shares including variable rate issues.

Expense for the year was higher by $14,174,000. Of this, interest paid on deposits increased by $7,723,000 with sharply rising rates in the last half of the year a factor. When interest rates are rising deposit costs tend to rise faster than investment revenues as the effect of interest payable on savings accounts and similar deposits is immediate. Unlike banks we have in our asset structure no material volume of demand loans on which the spread between interest earned and interest paid

remains relatively constant. The policy of emphasizing five year mortgage loans financed by five year deposits first initiated in 1971 has now placed the Company in the position of having a substantial portion of its assets and liabilities immune to short-term changes in interest rates.

Salaries increased by 9.1% mainly due to higher salary scales. The increase in real estate commissions paid is proportionate to the increase in commissions earned. Premises and equipment costs and other operating expense increases are attributable to inflationary price increases and volume usage. The category of other operating expense includes development and start-up costs of the new on-line data processing service for our stock and bond transfer operations.

Income before taxes increased by $1,385,000. Having regard for the increase in non-taxable dividend income there was but a minor increase of $55,000 in provision for income taxes.

Balance Sheet

Assets crossed the billion dollar level with an increase of $69,501,000 to $1,026,718,000. The reduction of $45,525,000 in cash, bank deposit receipts and loans is partially due to a shift of funds to treasury bills and short-term provincial debt which are included in marketable securities. Preferred shares increased by $18,095,000 which amount includes $10,500,000 of variable rate preferred shares, while investment in common shares increased by $1,904,000. Our policy of purchasing only those preferred shares having a redemption option or with mandatory purchase or sinking funds continues. Our investment in aircraft and vessels was increased by the acquisition of part ownership of a vessel leased to a substantial inland shipping organization. The increase of $67,000,000 in our mortgage portfolio was below expectations due to a record high level of loan prepayments which had the effect of partially neutralizing the level of new lending.

Guaranteed Trust Accounts increased by $64,636,000 with deposits up by $5,009,000 and term certificates by $59,627,000. Of the term certificate increase, $40,029,000 represented increased amounts of outstanding certificates issued for an original term of five years.

Of the $9,973,000 of deferred taxes at year-end, $5,353,000 is attributable to aircraft and vessel leases with the balance mainly related to the reserve claimed for our mortgage and bond portfolios as permitted under the Income Tax Act.

At year-end shareholders' equity was $20.55 compared with $18.81 one year earlier.

Directors

At last year's Annual Meeting, Arthur V. Mauro, Q.C., Executive Vice-President of The Investors Group, was elected a Director of the Company.

In September James R. Drumwright, a Director since 1975, resigned from the Board for personal reasons.

Kenneth H. Brown, Q.C., a Director since 1964, and Arthur P. Pascal, C.M., a Director since 1976, having reached mandatory retirement age, will not stand for re-election.

The Board gratefully acknowledges the important contribution made by these gentlemen during their terms as Directors.

Advisory Boards

In 1978, Marks H. Lockhart, Thomas Fournier and Edward F. Lorraine were appointed Advisory Board Members at Saint John, Brockville and Truro respectively. L. Lockhart of Saint John retired in midyear 1978. The following will be retiring at the Annual Meeting in accordance with the Company age policy:

A.E. Johnson (Chairman) and
S.S. Jacobson — Halifax;
F.O. Meighen, Q.C. and
D. Sprague, F.C.A. — Winnipeg;
J.G. Glassey and W.H. Yeadon — Truro

The Directors thank these gentlemen for their assistance in the management of our affairs.

Dividends

Our regular quarterly dividend of 15 cents per share was increased, for the third and fourth quarters, to 20 cents. In December the Directors declared an extra dividend of 30 cents payable on December 29. Total dividends paid per share amounted to $1.00, an increase of 14 cents over the prior year.

Outlook

Canada's economic performance again was below par in 1978 and we estimate that real growth will measure not more than 3½% when all data are recorded. Prospects for 1979 similarly are uninspiring and we see few sectors promising better than indifferent results.

This outlook, when coupled with the disturbing rise of short-term interest rates (seemingly destined to rise further over the next few months before a downward course is reestablished around midyear), evokes serious concern on numerous counts. We expect sluggish business conditions to prevail throughout most of 1979 with overall expansion measuring less than 3% and little likelihood of a significant lift until late in the year. Within this framework a continuance of the strong surge of corporate profits in 1978, in some measure attributable to the benefits from a lower Canadian dollar, can be expected to experience resistance.

With the expiry of the controls program, in 1979 Canada is operating in a setting determined primarily by market forces for the first time in three years. It is probable that business will face renewed demands from workers for a catch-up in real earnings eroded through the lengthy period of constrained wages and compounded by the inflationary effect of the lower valued Canadian dollar. Despite this, in view of the economic realities and the threat of reimposition of controls both in Canada and the United States should inflation worsen, we believe it unlikely that a renewed wage spiral is at hand. Thus, while some moderation in price increases to around the 8% level is possible this year, we expect the consumer sector of the economy will remain soft. In other important economic areas, the commitment of governments to more restrained fiscal policies will continue to cause a modest drag on total spending, and in the business sector an anticipated sharp decline in new housing starts to a level slightly above 200,000 units will largely neutralize expected increases in other expenditure categories.

As was the case a year ago, a major problem in assessing near-term Canadian business potential is the difficulty of predicting the probable course of international financial developments when account is taken of fragile political and economic stability in certain overseas countries. Most important is a measure of the presently vague outline of economic and interest rate trends in the United States. Our expectations for Canada rest largely on an assumption that the pace of American business will slow markedly early in 1979 following a year of undulating recovery. However, this view is not universally accepted and present evidence indicates a continuation of strong and seemingly balanced growth in the period immediately ahead. An extension of this trend would, through its effect on Canada's external trade sector, act to improve our overall economic performance. Adversely, it would also escalate the risk of overheating and reinforce the argument in favour of control measures in place of the wage and price guidelines recently introduced in the United States to alleviate the destabilizing inflationary thrust. It would, as well, necessitate continued upward pressure on administered interest rates and consequently delay a stepped reduction in Canadian rate structures which our present economic circumstances would otherwise dictate.

While the short-term outlook is not favourable, we are encouraged in the belief that by the end of 1979 and into 1980 improvement will be evident. Incorporated in this view is an expectation that interest rate trends will be more favourable and that key areas of the domestic economy, including the consumer and business sectors, will be expressing greater optimism. During the past year a number of events have occurred,

particularly in the United States, which take the form of public rejection of heavy taxation and excessive government encroachment in the mixed economy. Government has been responsive and while the acclaimed renaissance of free enterprise may be overstating the immediate realities, it is nonetheless apparent the message has been heard. This is similarly true in Canada and evidenced in a moderation of public spending including curtailment of often frivolous and poorly administered social programs. While the trend is not fully established, we welcome its appearance and encourage it.

It now appears that the Bank Act revisions will receive approval by mid-1979 unless a change in Government causes further legislative delay. We have, in association with certain other trust institutions, registered with the Parliamentary Standing Committee our objection to proposed revisions which would eliminate reserve requirements on chartered bank deposits for fixed terms of over one year and remove present limits on mortgage investment. Both matters are vital to the future competitiveness of the trust industry.

A major event in the eighty-nine year history of Montreal Trust occurred in 1978 with the formation of Montreal Trust Company of Canada, a federally incorporated subsidiary which is now licensed to do business in each of Canada's ten provinces as is Montreal Trust Company. Because of regulatory requirements we may transact deposit business at our various branches through either the parent or subsidiary, but not through both. Consequently, and with effect January 1, 1979, over-the-counter deposit business and term deposit issuance is being conducted through Montreal Trust Company of Canada at all branch offices outside of Quebec Province. Early in 1979 we will have facilities available to offer some fiduciary services through the Federal Company with all such services to be provided by year-end to clients who wish to so avail themselves. The task of forming Montreal Trust Company of Canada and designing the infrastructure for its development has been a formidable one requiring considerable time and effort of senior officers and we are pleased indeed to advise you of this important occurrence.

1978 was a successful year for Montreal Trust, with excellent results being achieved, often through difficult periods, and reflects credit on our staff at all levels. We express our thanks to our employees for their loyalty and determination in the year past.

All shareholders are encouraged to attend the Company's Annual Meeting which will be held on April 5, 1979, at the Château Champlain Hotel, Montreal.

On behalf of the Board:

Paul Britton Paine

Paul Britton Paine, Q.C.,
Chairman of the Board
and President.

Montreal, January 29, 1979

Board of Directors

February 1, 1979

*† **Douglas A. Berlis, Q.C.**
Messrs. Aird & Berlis
Toronto

Robert W. Bonner, Q.C.
Chairman
British Columbia Hydro and
Power Authority
Vancouver

Kenneth H. Brown, O.B.E., Q.C.
Messrs. Lafleur, Brown,
De Grandpré
Montreal

Frank E. Case
Officer Consultant
Brockville

Arthur J.E. Child
President and
Chief Executive Officer
Burns Foods Limited
Calgary

* **Peter D. Curry**
Deputy Chairman
Power Corporation of
Canada, Limited
Montreal

Paul Desmarais, O.C.
Chairman and
Chief Executive Officer
Power Corporation of
Canada, Limited
Montreal

Melvyn A. Dobrin
Chairman of the Board and
Chief Executive Officer
Steinberg Inc.
Montreal

Hon. John M. Godfrey, Q.C.
Messrs. Campbell,
Godfrey & Lewtas
Toronto

* **Matthew S. Hannon, Q.C.**
Messrs. Ogilvy, Montgomery,
Renault, Clarke, Kirkpatrick,
Hannon & Howard
Montreal

* **Robert H. Jones**
President and
Chief Executive Officer
The Investors Group
Winnipeg

† **J. Taylor Kennedy**
Company Director
Montreal

Hon. Jean Lesage, P.C., C.C., Q.C.
Messrs. Lesage, Paquet & Lesage
Quebec

John E. Main
Retired
London

† **Arthur V. Mauro, Q.C.**
Executive Vice-President
The Investors Group
Winnipeg

* **MacKenzie McMurray**
Company Director
Montreal

J. William E. Mingo, Q.C.
Messrs. Stewart,
MacKeen & Covert
Halifax

* **Gaetan C. Morrissette**
Chairman of the Board
Standard Brands Limited
Montreal

* **Paul Britton Paine, Q.C.**
Chairman of the Board
and President of the Company
Montreal

† **Arthur P. Pascal, C.M.**
Executive Vice-President
J. Pascal Limited
Montreal

* **Douglas J. Peacher**
Company Director
LaJolla, California

† **Albert E. Shepherd, Q.C.**
Chairman of the Board and
Chief Executive Officer
Commonwealth Holiday Inns
Canada Limited
London

Hershell A. Smith, D.S.O., M.C.
President
Sooke Forest Products Ltd.
Victoria

Charles E. Stanfield
Retired
Truro

Arthur V. Toupin
Vice-Chairman of the Board
Bank of America NT & SA
San Francisco

** Executive Committee Member*
† Audit Committee Member

Officers

Paul Britton Paine, Q.C.
Chairman of the Board
and President

Matthew S. Hannon, Q.C.
Chairman of the
Executive Committee

Harold T. Martin
Executive Vice-President
and General Manager

HEAD OFFICE

Douglas T. Waite
Vice-President,
Branch Operations

J. Gordon Telfer, C.A.
Vice-President, Finance

Anthony G. Best
Vice-President,
Client Services and Marketing

Norman Cunningham
Vice-President, Investments

J. Frank Luce
Vice-President, Personnel

Edward T. Mulkins
Vice-President, Real Estate

J. Grant Paterson
Vice-President, Mortgages

W. Kenneth Proctor
Vice-President, Administration

J. Kevin Reynolds
Secretary

Peter F.S. Nobbs, C.A.
Comptroller

John J. Davidson
Assistant Vice-President,
Premises and Security

William J. Henderson
Assistant Vice-President,
Pension Services

Robert J. Labelle
Assistant Vice-President,
Mortgages

James P. Moore
Assistant Vice-President,
Mortgage Administration

Brian H. Skuffham
Assistant Vice-President,
Pension Investment Services

Norman W. Stefnitz
Assistant Vice-President,
Investments

James Allison
Director, Stock and
Bond Transfer Services

Samuel W. Ficych
Director, Deposit Services

James G. Fullerton
Director, Executive and
Estate Planning

Frederick J. Turnbull
Director,
Personal Trust Services

Jack H. Whiteley
Director,
Corporate Trust Services

John T. Wilson
Director, Fund Services

REGIONAL

R. Ross Pritchard
Vice-President,
Atlantic Region—Halifax

Jean Luc Dutil
Vice-President,
Quebec Region—Montreal

George Stephen
Vice-President,
Ontario Region—Toronto

Gordon C. McDonell
Vice-President,
Mid-West Region—Winnipeg

Robert D. Quart
Vice-President,
Western Region—Vancouver

Ronald Bond
Vice-President—Toronto

Report on Operations

Harold T. Martin
Executive Vice-President and General Manager

We are pleased to report that 1978 was a year of excellent performance for Montreal Trust. It was a year in which we recorded solid growth and simultaneously achieved progress toward the realization of important objectives; offering a broader range of products, upgrading our data processing capacity and gearing our staff to meet the changing needs of our clients.

While attending to operational management and the attainment of good current results, we also devoted considerable effort to position ourselves for the future.

The Company has committed substantial manpower and financial resources to upgrading our Data Processing capacity and to the planning and implementation of new systems. In 1978, the utilization of computer facilities reached a level which required an increase in capacity and a new computer was installed in September which doubled our processing power.

Communication costs climbed sharply as a result of the installation of a sophisticated telecommunication network between our major branches in conjunction with the new Automated Corporate Transfer System (ACTS). The experience and expertise gained from this project will be of great value to us with respect to future development of telecommunication usage in other areas of our business.

The marketing directions taken in recent years have been increasingly successful. Efforts are being made to improve the overall quality and competitiveness of a large number of our services, both intermediary and fiduciary. It is evident that the cross-selling programs established in our major branches are producing results.

While the year's accomplishments are recorded in greater detail throughout this Annual Report, certain areas require special comment.

Mortgages

The volume of our mortgage business in 1978 showed an increase of 20% over 1977. Our commitments issued exceeded

$252 million for the year and we continued to place emphasis on residential properties which represented 85% of our mortgage lending for the year.

In response to the continuing demand for short-term loans, three year term mortgages were offered in 1978 for the first time. In addition, we introduced short-term open mortgages which do not penalize the borrower in the event of prepayment prior to maturity. The wide range of mortgage loans now available enables us to offer financing customized to the needs of individual borrowers.

Although competition is expected to intensify in 1979, an aggressive expansion of our mortgage operations is planned to enable us to achieve a substantial increase in mortgage production.

Real Estate

Gross income of over $20 million for 1978 compared with $16 million the previous year reflects the further expansion of our Real Estate operations during the fiscal year. This increase of 25% in 1978 compares with 14.7% in 1977.

We now have 59 offices offering Real Estate services across the country. During the year, we opened new offices in Quebec, Ontario and British Columbia and while these contributed to increasing our share of the market in 1978, the full benefits will accrue in 1979 and future years.

The improvements achieved in 1978 encourage our efforts to continue to enhance and expand our Real Estate operations throughout Canada with particular emphasis on strengthening our established position in the residential real estate field.

Guaranteed Trust

Montreal Trust, to improve upon and expand the range of deposit options, has increased the types of savings accounts by introducing a personal chequing account with effect January 1, 1979. This account, operated jointly with a high interest non-chequing savings account, provides clients with flexibility and the opportunity to earn maximum interest.

Guaranteed Investment Certificates offer higher interest earnings for sums that can be left on deposit for an agreed term. Interest is payable at maturity for certificates issued for less than one year and semi-annually for certificates over one year. Depositors have the option of electing to receive interest annually for certifcates issued for a three year term and for certificates issued for a five year term, interest can be received monthly, semi-annually, annually or compounded annually and payable at maturity.

Moderate growth has been experienced in all classes of deposits with the Guaranteed Investment Certificate section of the Retirement Savings Plan making a major contribution. The number of holders of Guaranteed Investment Certificates increased by 5,800 to 55,600 and the number of certificates outstanding at year-end increased by 9,800 to 92,100. The major growth continues to be in certificates issued for a term of five years which increased by 7,600 to 75,600.

Corporate Services

Our new Automated Corporate Transfer System (ACTS) became operable on November 17, 1978 and conversion is proceeding on schedule. This on-line system will substantially improve the speed and accuracy of stock transfers and in addition, provide facilities, unique in Canada, for handling large volumes of transactions which should greatly enhance the future of our Stock Transfer and Corporate services.

Certificate issuance and related activities during 1978 exceeded the levels attained in 1977. In addition to an increase

in normal Stock Transfer activity, we also experienced a significant growth in the special services required for takeovers and mergers.

New debt financing serviced by us did not achieve the record volume of the previous year but we received a representative share of the business available. Much of the benefits of the larger revenue being generated from the increased volume of our business has been eroded by escalating costs and this necessitated revising our fee schedule last July.

Personal Trust

Income from Estate, Trust and Agency services continued to show satisfactory growth with fees and commissions exceeding $9 million. The increase over 1977 resulted from a combination of factors, including higher stock prices and an improvement in new business production. Assets under administration continued to grow in 1978.

We are constantly endeavouring to improve staff efficiency in order to offset the continuing rise in operating costs which have been eroding the benefits from higher revenue. Training facilities, information systems and record-keeping capabilities have been expanded and automation of clerical functions extended in some areas with a view to providing better service to our clients.

Our proposal for a Common Trust Fund was presented to various provincial governments and we were gratified that it was favourably received. We anticipate that this Fund will soon be in operation and that the operating efficiencies envisaged in our fiduciary investment services will be achieved.

Investment Funds

Our largest fund, the Montreal Trust Retirement Savings Plan, increased by 20% during 1978. The total market value of the plan is now approximately $206 million.

In October 1978, Montreal Trust introduced a Retirement Income Fund which provides individuals with a new option for investment of maturing Retirement Savings Plans. Deposits in our Retirement Income Fund have reached our year-end objective and we anticipate increasing interest in this Fund in 1979.

The Montreal Trust Mortgage Fund continues to be a popular investment, showing a 30% increase in market value to just over $70 million in 1978.

Demand for our Deferred Profit Sharing Plan continues strong with a growth of 35% in 1978.

The Registered Home Ownership Savings Plan experienced moderate growth of 15% this year despite the introduction of revised income tax legislation.

The Montreal Trust Investment Fund experienced little change this year as investors continue to favour tax sheltered vehicles.

Pensions

Total assets under administration for Pension and Benefit Fund accounts now exceed $3 billion. The assets of Multiple Fund increased 16% to over $200 million.

The continuing close scrutiny of the private pension industry both by government and by the public has given further impetus to an already established trend towards greater sophistication and complexity in administration. We have had considerable success in meeting this challenge through the provision of custom designed "master-trusts" and sponsored pooled trust administration systems for both pension and employee benefit funds.

In Toronto, where our business base has undergone rapid expansion, we have established separate Pension Investment, Pension Trust Administration and Benefit Fund Administration Departments. Continuing our policy of improving and expanding

client services, we have reorganized and further strengthened our regional pension operations in Vancouver and Montreal.

As an extension of our services to self-directed Retirement Savings Plan clients, made possible by recent amendments to the Income Tax Act, we have established a self-directed Retirement Income Fund. We were the first trust company to obtain approval and registration for such a fund.

Branch Operations

During the year, our branches continued to show improved growth in profit and new business.

A new branch was opened in Fonthill, Ontario, and our branches in Edmonton, Victoria and Sudbury were relocated to new and larger premises. Our program of improving and relocating some of our older branches is expected to continue in 1979.

We presently have eighty-seven offices across Canada, twenty-eight of which offer full trust company services and the remaining fifty-nine provide Real Estate services.

Personnel Services

Notwithstanding the growth of our business, salaried personnel showed but a small increase during the year which reflects our further mechanization and development of new systems. We are continuing to emphasize educational training in our efforts to provide clients with a highly qualified staff able to deal with their needs.

During the year, Norman W. Stefnitz was appointed Assistant Vice-President, Investments and Brian H. Skuffham as Assistant Vice-President, Pension Investment Services. Branch management appointments were Kenneth J. McGregor, Calgary; Maurice J. Fleet, Sudbury; Frank E. Robinson, Hamilton and Douglas K. Hodgson, Fonthill. Andrew Scipio del Campo was appointed Deputy Manager, Montreal Branch.

We have contributed managerial input and committed extensive participation in the Trust Institute educational programs which are in addition to the ongoing training activities in many of our branches.

Costs of hiring and transferring key personnel continued to be of concern during 1978, but our turnover rate of both clerical and managerial/specialist staff has declined.

We are proud of the results attained in 1978 and we would like to thank our staff whose efforts were responsible for the many achievements this year. We are fortunate in having a very capable group of employees.

Harold T. Martin
Executive Vice-President
and General Manager.

Montreal, January 29, 1979

Consolidated Statement of Income

For the year ended December 31, 1978

	1978	1977
Revenue		
Fees & Commissions		
Personal trust	[illegible]	$ 8,234,000
Corporate services	[illegible]	7,793,000
Pension trust	[illegible]	4,705,000
Mortgage services	[illegible]	3,552,000
Real estate	[illegible]	15,949,000
Other	[illegible]	2,779,000
	[illegible]	43,012,000
Interest from mortgages	[illegible]	62,478,000
Other interest	[illegible]	21,748,000
Dividends	[illegible]	2,084,000
	[illegible]	129,322,000
Expense		
Interest paid	[illegible]	69,855,000
Salaries	[illegible]	20,475,000
Real estate commissions	[illegible]	10,113,000
Staff benefits	[illegible]	2,334,000
Premises and equipment (2)	[illegible]	7,385,000
Other operating expenses	[illegible]	10,410,000
	[illegible]	120,572,000
Net income before taxes	[illegible]	8,750,000
Taxes on income		
Current	[illegible]	1,298,000
Deferred	[illegible]	1,743,000
	[illegible]	3,041,000
Net operating income	[illegible]	5,709,000
Profit on sale of investments and reduction in long-term debt of a subsidiary, net of income taxes	[illegible]	48,000
Net income	[illegible]	$ 5,757,000
Earnings per share		
Net operating income	[illegible]	$2.22
Net income	[illegible]	$2.23

Consolidated Statement of Retained Earnings

For the year ended December 31, 1978

	1978	1977
Balance at beginning of year	[illegible]	$ 36,560,000
Net income	[illegible]	5,757,000
	[illegible]	42,317,000
Dividends	[illegible]	2,216,000
Balance at end of year	[illegible]	$ 40,101,000

Auditors' Report

To the Shareholders,
Montreal Trust Company.

We have examined the consolidated balance sheet of Montreal Trust Company as at December 31, 1978 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1978 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants
Montreal, Quebec, January 29, 1979

Consolidated Balance Sheet

December 31, 1978

ASSETS	1978	1977
Investments (3)		
Cash and bank deposit receipts	$ 55,884,000	$ 89,859,000
Loans, secured	14,556,000	26,106,000
	70,440,000	115,965,000
Securities		
Marketable (4)	161,539,000	119,475,000
Not readily marketable	25,811,000	27,829,000
Associated companies	6,197,000	4,147,000
	193,547,000	151,451,000
Mortgages	723,517,000	656,517,000
Mortgages for sale under agreement	10,516,000	7,598,000
Real estate held for investment	1,390,000	1,426,000
	735,423,000	665,541,000
Other		
Accounts receivable and advances to clients	8,321,000	7,024,000
Premises and equipment (5)	14,316,000	14,177,000
Other assets	4,671,000	3,059,000
	$1,026,718,000	$957,217,000

Approved on behalf of the Board:
January 29, 1979

Paul Britton Paine, Q.C., Director
Matthew S. Hannon, Q.C., Director

LIABILITIES	[illegible]	1977
Guaranteed Trust Accounts (3)		
Deposits	[illegible]	$248,849,000
Investment certificates	[illegible]	641,463,000
	[illegible]	890,312,000
Accounts payable and prepaid fees	[illegible]	1,620,000
Income taxes		
Current	[illegible]	578,000
Deferred	[illegible]	8,251,000
Long-term debt of a subsidiary (5)	[illegible]	7,975,000
	[illegible]	18,424,000
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized—5,000,000 shares of $1 par value		
Issued —2,580,325 shares (6)	[illegible]	2,577,000
Contributed surplus (6)	[illegible]	5,803,000
Retained earnings	[illegible]	40,101,000
	[illegible]	48,481,000
	[illegible]	$957,217,000

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1978

	1978	1977
Funds derived from		
Operations		
Net Income	$ 7,087,000	$ 5,757,000
Depreciation and amortization (2)	1,277,000	1,205,000
Deferred income taxes	1,722,000	1,743,000
Increases in deposits		
Deposits	5,009,000	36,049,000
Investment certificates	59,627,000	56,302,000
Other		
Decrease (increase) in Guaranteed Trust Accounts, bank deposits and secured loans	47,697,000	(5,365,000)
Partial repayment of securities not readily marketable	2,010,000	1,615,000
Reduction of investments in and advances to associated companies	—	1,408,000
Issue of capital stock including contributed surplus (6)	44,000	4,000
	124,481,000	98,718,000
Funds applied to		
Increases in investment		
Marketable securities	44,114,000	28,590,000
Mortgages	67,000,000	59,504,000
Mortgages for sale under agreement	2,918,000	993,000
Other		
Real estate held for investment	25,000	4,000
Increase in other assets	1,612,000	455,000
Retirement of long-term debt (5)	950,000	200,000
Additions to premises and equipment	1,355,000	1,200,000
Dividends	2,580,000	2,216,000
	120,554,000	93,162,000
Increase in working capital	$ 3,927,000	$ 5,556,000
Company Assets		
Cash and bank deposit receipts	$ 12,110,000	$ 8,038,000
Loans, secured	6,900,000	8,800,000
Accounts receivable and advances to clients	8,321,000	7,024,000
Total current assets	27,331,000	23,862,000
Company Liabilities		
Accounts payable and prepaid fees	1,678,000	1,620,000
Current income taxes	62,000	578,000
Total current liabilities	1,740,000	2,198,000
Working Capital	$ 25,591,000	$ 21,664,000

Notes to Consolidated Financial Statements

December 31, 1978

1. Summary of Significant Accounting Policies

The financial statements of the Company include the accounts of the Company and its subsidiaries, all of which are wholly owned. The principal subsidiaries are Montreal Trust Company of Canada, Montreal Trust Mortgage Corporation, Riveredge Village Inc., The Acadia Trust Company, Treal Properties Limited and Treaver Properties Limited.

The investments in associated companies are stated at cost and their earnings are taken into income only to the extent of dividends received. These and the Company's interest therein at December 31, 1978 were: RoyNat Limited (13.5%), Insmor Holdings Limited (3.99%), Montreal Trust (Bermuda) Limited (40%), Montrad Limited (50%), Alberti Navigation Inc. (10%), and Pacific International Trust Company (12.5%).

All revenue and expenses are recorded on an accrual basis except for fees subject to awards by courts or negotiation, which are recorded on a cash received basis. Income from the aircraft and vessel leases is taken up over the term of the leases pro-rata to the declining balance of the investments not yet recovered. Debt securities and mortgages are valued at amortized cost, other securities are valued at cost. Gains or losses on sale of securities, based on average cost, are reflected in net income. Premises and equipment are stated at cost less accumulated depreciation and amortization. There were no changes in accounting principles from the prior year.

Assets held under administration and assets held for Guaranteed Trust Accounts are kept separate from the Company's own assets and are so earmarked on the books of the Company as to show the account to which they belong. Assets under administration are not reflected on the Consolidated Balance Sheet.

The consolidated financial statements now combine the assets and income of the Company's own accounts with those of the Guaranteed Trust Accounts. The comparative figures for 1977 have been restated on the balance sheet and statement of income together with the related notes to reflect this new format. The statements now include a statement of changes in financial position.

2. Premises and Equipment Expense

Premises and equipment expense is stated net of rental income and includes depreciation and amortization of $1,277,000 (1977–$1,205,000) and interest on the long-term debt of a subsidiary of $398,000 (1977–$441,000).

3. Assets Held for Guaranteed Trust Accounts

	[illegible]	1977
Cash, bank deposits, secured loans	[illegible]	$ 99,128,000
Securities	[illegible]	133,156,000
Mortgages	[illegible]	658,028,000
	[illegible]	$890,312,000

4. Marketable Securities

	1978		1977	
	Cost	Market	Cost	Market
Government of Canada	[illegible]	[illegible]	$ 15,036,000	$ 14,319,000
Provinces of Canada	[illegible]	11,123,000	5,937,000	5,557,000
Canadian municipalities	[illegible]	[illegible]	573,000	592,000
Corporate bonds, debentures and obligations	[illegible]	[illegible]	47,350,000	47,305,000
Aircraft & vessel certificates*	10,929,000	10,929,000	9,236,000	9,236,000
Stocks—preferred	[illegible]	[illegible]	32,030,000	32,302,000
—common	[illegible]	14,022,000	9,313,000	9,652,000
	[illegible]	[illegible]	$119,475,000	$118,963,000

*Aircraft certificates represent part ownership of two aircraft leased to Air Canada net of a liability of $2,391,000 which is secured by a mortgage on an aircraft and the related lease payments. The vessel certificates represent part ownership of two vessels; one leased to the Province of British Columbia and the other to Upper Lakes Shipping Ltd.

5. Long-Term Debt

Treal Properties Limited, a subsidiary company, has outstanding 5½% first mortgage sinking fund bonds due April 1, 1991. Office buildings in Toronto and Ottawa owned by the subsidiary and occupied by the Company, with a net book value of $8,225,000, are pledged as security for the bonds. Sinking fund payments, ranging from $200,000 to $250,000 are due in 1979 to 1990 and the balance of $5,000,000 is due April 1, 1991. During 1978 $950,000 of outstanding bonds were purchased and cancelled including the $200,000 due on April 1, 1978. The Company can elect to have the remaining $750,000 of cancelled bonds apply against future sinking fund requirements. The buildings are being depreciated by annual amounts equal to the sinking fund payments, which by April 1, 1990 will amount to 50% of the original cost.

6. Capital Stock

Options have been granted to certain employees to purchase shares of the Company at prices ranging from $11.25 to $18.00 per share. In 1978 no new options were granted and options on 3,350 shares were exercised. There were 16,225 shares under option at December 31, 1978. The premium on the shares issued has been credited to contributed surplus.

7. Anti-Inflation Legislation

The Company was subject to the Federal Anti-Inflation legislation relative to prices, profits, compensation and dividends. In the opinion of management the Company has operated in compliance with the legislation and supporting regulations.

Advisory Boards

Brockville, Ont.
*F.E. Case
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T. Fournier
C.H. Hughes
J.W. Langmuir
T.A. Lindsay

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F.B. Wickwire, Q.C.

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G.R. Spencer

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F.T. Stanfield
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L.O. Pollard
C.S. Riley
D. Sprague, F.C.A.
A. Sweatman, Q.C.

* *Chairman*

10 Year Summary

Year	Guaranteed and Company Assets	Revenue	Expense	Taxes on Income	Net Operating Income	Per Share Net Operating Income	Per Share *Dividends
1978	**$1,026,718,000**	**$144,881,000**	**$134,746,000**	**$3,096,000**	**$7,039,000**	**$2.73**	**$1.00**
1977	957,217,000	129,322,000	120,572,000	3,041,000	5,709,000	2.22	.86
1976	859,270,000	116,241,000	108,167,000	3,107,000	4,967,000	1.93	.80
1975	767,717,000	98,866,000	91,426,000	3,183,000	4,257,000	1.65	.70
1974	696,286,000	91,217,000	86,987,000	1,766,000	2,464,000	.96	.80
1973	627,441,000	75,181,000	67,462,000	3,519,000	4,200,000	1.64	.80
1972	593,222,000	63,481,000	55,047,000	3,860,000	4,574,000	1.82	.80
1971	545,298,000	58,070,000	50,399,000	4,000,000	3,671,000	1.50	.70
1970	509,682,000	58,791,000	55,736,000	1,435,000	1,620,000	.66	.55
1969	495,578,000	51,484,000	47,440,000	2,175,000	1,869,000	.76	.60

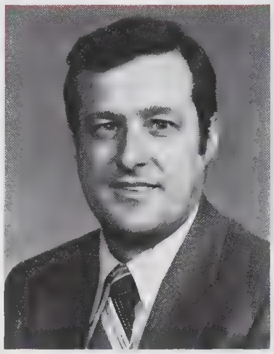
*Declared with respect to the year's earnings.

Montreal Trust's Services:

A look at a few of the interesting ways people use them.

At Montreal Trust, we pride ourselves on the range of services we provide for Canadians whether they be savers, borrowers, investors or entrepreneurs; for it is they who, in ways large and small, help to chart new economic directions for all of us.

In this Annual Report we salute a cross-section of some of our valued clients who are using our services in a creative and interesting manner and who, in turn, have prompted us to take advantage of new business opportunities. We also salute some of our employees who are servicing these clients.



Norman C. Raymond
Manager,
Edmonton Branch

Syncrude. A pioneering company with a very special Employee Benefit Program.

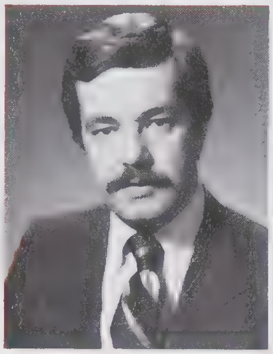
Working the Alberta tar sands calls for the imaginative use of advanced technology. It's hard work in a harsh environment. Fortunately, Canadians have always responded well to the challenge of a new frontier. But Syncrude is looking beyond its pioneering years and is counting on a stable and contented work force in the future. One very effective way to keep a person happy and motivated is to offer a meaningful Employee Benefit Program.

Syncrude has provided an opportunity for employees to invest in one of three investment options; Savings, Income or Equity, all tailored to the special requirements of Syncrude. In addition, these plans provide employees with periodic information on the growth of their investment and allows them to withdraw all the capital and interest at any time after one year's participation.

After reviewing our proposal and others, Syncrude selected Montreal Trust because of our reputation as one of the leaders in the benefit fund field and because of the excellent reputation of our Edmonton Branch, managed by Norman Raymond and his capable staff.

Norman Raymond has twenty years experience in this field and an impressive record, marked by innovative approaches to business opportunities. Proud of the Company's achievements in Western Canada, he looks forward to continued growth in the two Edmonton branches which fall under his supervision.

Syncrude's heavy equipment working the Alberta tar sands is on a scale that defies description. Montreal Trust administers an Employee Benefit Program for the pioneering firm's staff.



Paul J. Dyer
Deputy Manager,
Halifax Branch

The Windsor Foundation. One man's success benefits many.

In 1960, steps were taken to create a foundation under the provisions of the Will of Mr. Sydney A. Windsor, the founder of a successful food packing company.

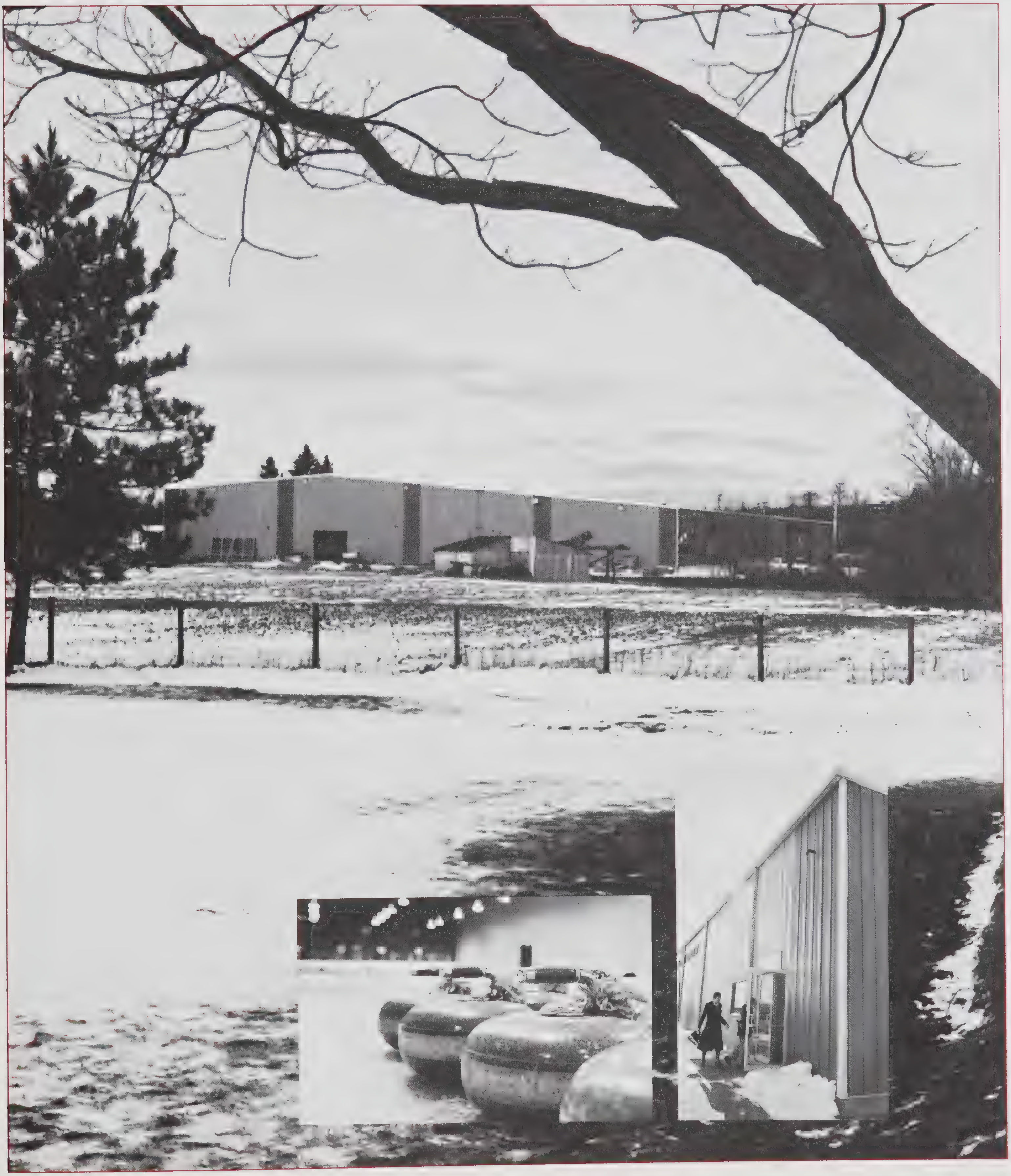
This foundation has provided money for scores of projects; many grants were to aid in the construction of university buildings, notably in the Maritime area. These include buildings on the Mount Allison campus as well as the Acadia, Dalhousie, Saint Mary's and University of Prince Edward Island campuses. Monies have also been made available over the years for a very diverse range of projects.

Montreal Trust was deeply involved with the establishment of the foundation and indeed several of the Company's officers sit on the Board of Governors with Mr. R.B. Killam, the late Mr. Windsor's nephew, as Chairman.

The foundation is administered on a day-to-day basis by Paul Dyer, the Deputy Manager of our Halifax Branch. Paul has been involved with the Windsor Foundation since 1970 and brings to this task an expertise resulting from 9 years involvement with the estate and trust aspect of our business. Paul coordinates the investment management service which Montreal Trust provides to the Windsor Foundation. The return on these investments provides the necessary funds to meet the foundation's very extensive financial commitments which extend into the 1980's.

Paul enjoys the involvement with the Windsor Foundation because of the people it brings him in contact with and as he says, "Dealing with people is what a trust company is all about".

The Windsor Foundation, which is administered by Montreal Trust, provides funding for many worthwhile projects such as this community rink in Brookfield, Nova Scotia.



Stephen R. Dreschel
Manager,
Windsor Branch

Kimberley Homes. Community Building in Southern Ontario.

Eleven years ago, a young man named James Ellis approached Montreal Trust and asked for a mortgage loan to build his first house for resale. This year, we expect to provide $8,500,000 in mortgages on single family dwellings built by the development company which Mr. Ellis created.

"Kimberley Homes" is a respected name in London, Windsor and recently in Kitchener. These homes are offered in a variety of styles and price ranges. Buyers can enjoy "one-stop shopping" since each development site has model homes, sales personnel and financing information readily available. We're proud of our association with people like Mr. Ellis. Proud that we're helping to finance quality developments which provide people with something more than just a place to live. Our Windsor office is managed by a young man of whom we are also proud, for Stephen Dreschel is a good example of the talented personnel at Montreal Trust moving into positions of responsibility as the result of proven ability. He was named Manager in 1976 at the age of 25, after serving in the Hamilton Branch as accountant and Toronto office as a Pension Trust Officer.

Raymond E. Jarjour
Manager,
Corporate Trust Department,
Montreal Branch

A.M.C.I. Productions Limited. An investment in "A Man Called Intrepid".

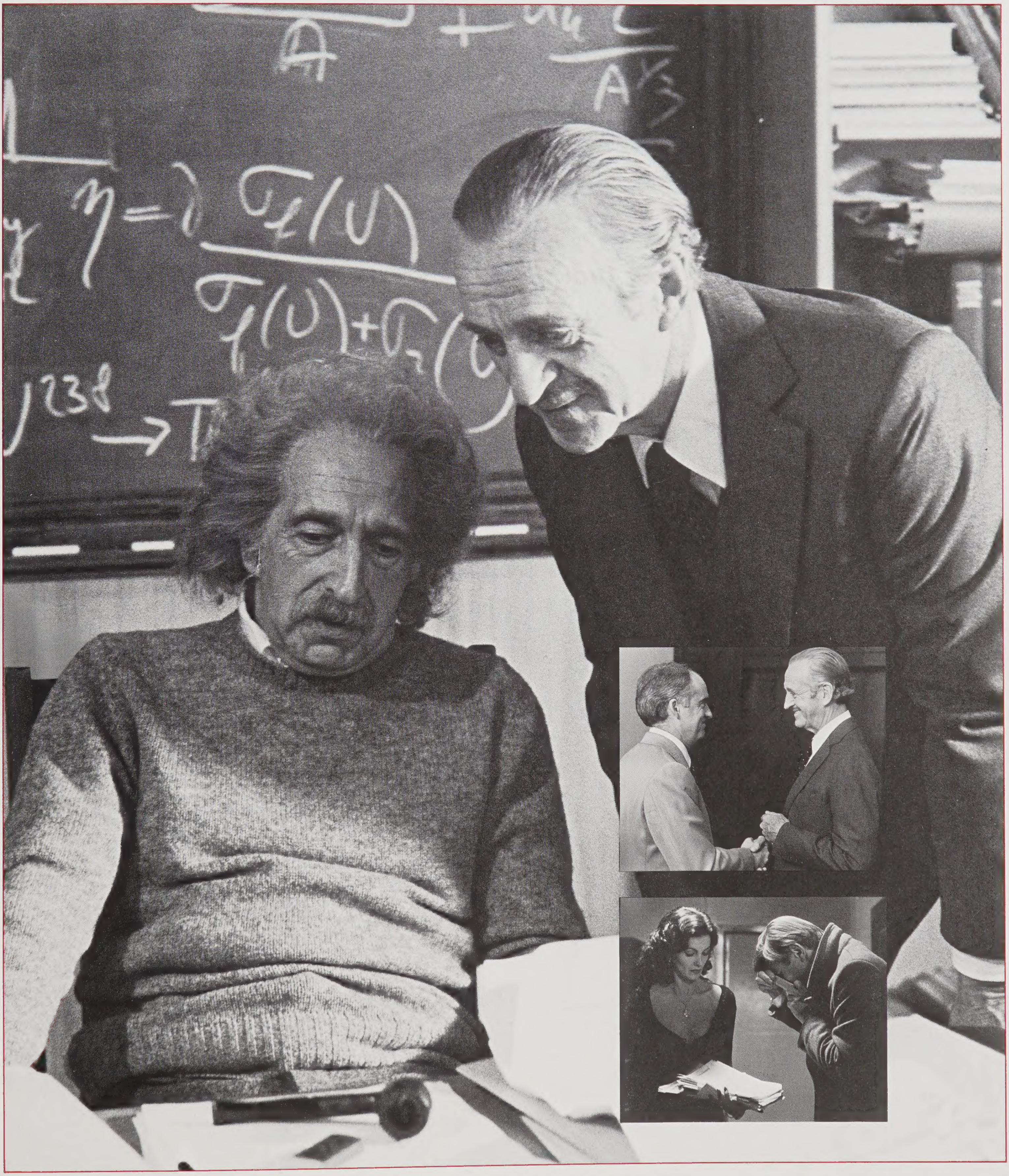
When Harold Greenberg of A.M.C.I. Productions Limited decided to make a film about one of Canada's most astonishing individual achievements, he invited people from across Canada to take advantage of the tax benefit opportunities provided by investing in Canadian films. Montreal Trust acquired the appointment as trustee to hold investor monies because of its previously established expertise in this field.

Montreal Trust is always seeking new business opportunities and in this case, Montreal Trust received the funds and issued the unit certificates to subscribers. On a longer term basis, Montreal Trust will pay out any royalties which the film earns for its investors.

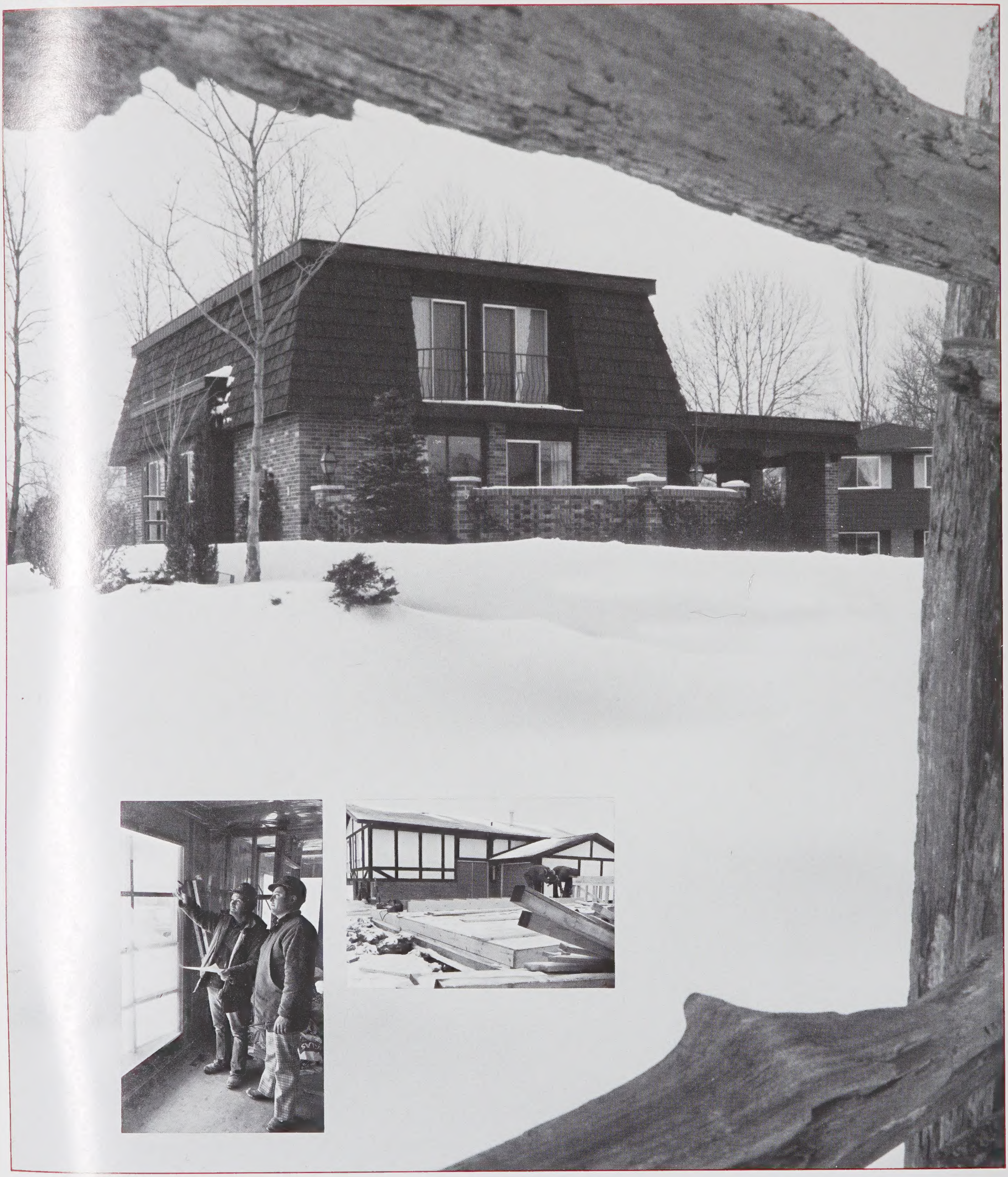
Our Montreal Branch's Corporate Trust Department under Raymond Jarjour, its Manager, has the responsibility for these trustee functions. Raymond has more than 25 years of experience in corporate trust activities. His department in Montreal administers over four billion dollars of debt obligations. Raymond is one of the reasons Montreal Trust has gained a reputation that is second to none in trustee administration for the debt financing of major corporations.

These are just a few of the many stories of clients and Montreal Trust employees working together. They are typical of the role Montreal Trust plays in providing financial services for individuals and corporations.

David Niven stars in "A Man Called Intrepid", a film about one of Canada's most astonishing individuals. Montreal Trust acts as trustee for the film's investors.



Montreal Trust will provide more than $8,500,000 in mortgages this year on fine houses built by Kimberley Homes of Windsor, Ontario.



Offices

HEAD OFFICE
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Montreal, Quebec

ATLANTIC REGION
Halifax, N.S.
R. Ross Pritchard, Regional Vice-President and Branch Manager
Paul J. Dyer, Deputy Manager
Hollis and Prince Streets

Charlottetown, P.E.I.
Edgar G. Goss, Manager
119 Richmond Street

Saint John, N.B.
Cedric A. Stokes, Manager
61 King Street

St. John's, Nfld.
James F. Knox, Manager
253 Duckworth Street

Truro, N.S.
E. Keith Urwin, Manager
798 Prince Street

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Jean Luc Dutil, Regional Vice-President and Branch Manager
Andrew Scipio del Campo
Deputy Manager
1 Place Ville Marie

André Zenga, Manager
Fairview Shopping Centre
Pointe Claire

Quebec City
Jean-Paul Labbé, Manager
500 Grande Allée East

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Regional Vice-President
Ronald Bond, Vice-President and Branch Manager
Frank L. Austin
Deputy Manager
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Brockville
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4 Court House Avenue

Fonthill
Douglas K. Hodgson, Manager
Fonthill Shopping Centre

Hamilton
Frank E. Robinson, Manager
31 Main Street West

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165 Wellington Street

Kitchener
John R. Haygarth, Manager
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W. Frank O'Connor, Manager
160 Dundas Street

Ottawa
Hugh R. Williams, Manager
96 Sparks Street

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Maurice J. Fleet, Manager
11 Durham Street South

Windsor
Stephen R. Dreschel, Manager
880 Ouellette Street

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Regina, Sask.
Morris E.L. Sims, Manager
1908-11th Avenue

Saskatoon, Sask.
R. Eugene B. Griffith, Manager
234-21st Street East

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E. Wallace Campbell
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466 Howe Street

Leonard E. Pitt, Manager
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Kenneth J. McGregor, Manager
411-8th Avenue South West

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Norman C. Raymond, Manager
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Southgate Shopping Centre

Kelowna, B.C.
Edgar N. Ellis, Manager
262 Bernard Avenue

Victoria, B.C.
D.C. Michael Field, Manager
100-747 Fort Street

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Edmonton (2) • Fonthill
Halifax (3) • Hamilton (3)
Kelowna • Kingston
London • Montreal (13)
Ottawa (2) • Quebec (3)
Regina • Saint John, N.B.
St. Catharines • St. John's, Nfld. (2) • Saskatoon
Sherbrooke • Sudbury
Toronto (7) • Truro
Vancouver (5) • Victoria (2)
Windsor • Winnipeg

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Montreal Trust (Bermuda) Limited

Nassau, Bahamas
Montreal Trust Company (Bahamas) Limited

Montreal Trust

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